State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER ● 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: June 19, 2025

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Sibley, Bruce, Chambliss) CJD
Division of Accounting and Finance (Bardin, Byrne, Norris, Przygocki, Sewards, York) ALM
Division of Engineering (Ellis, King, Ramos, Wooten) TB
Office of the General Counsel (Brownless) JSC

RE: Docket No. 20240108-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

AGENDA: 07/01/25 – Regular Agenda – Proposed Agency Action All Issues Except for Issues 32 and 33 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: 06/24/25 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

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Case Background

K W Resort Utilities Corp. (KWRU or utility) is a Class A wastewater utility providing service to approximately 1,844 customers in Monroe County. Water service is provided by the Florida Keys Aqueduct Authority. The utility's rates were last established in 2017 in Docket No. 20170141-SU.[1] According to the utility's 2023 annual report, the utility recorded total company operating revenues of $3,880,373 and operating expenses of $2,725,885.

On December 13, 2024, KWRU filed its application for approval of wastewater rate increases.[2] In its application, the utility requested that the Commission process the utility's rate case using the proposed agency action procedure as provided in Section 367.081(10), Florida Statutes (F.S.). On January 10, 2025, staff sent the utility a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). The utility's response to the deficiencies was filed on January 15, 2025. Staff established the official filing date by letter on January 24, 2025.

KWRU's application for increased wastewater rates is based on the historical test year ended June 30, 2024. The utility is requesting a wastewater increase to recover all expenses it will incur including a fair rate of return on its investment and pro forma plant projects. The pro forma plant projects consist of replacing the South Wastewater Treatment Plant blowers and an associated electrical upgrade to the treatment plant. KWRU requested rates are designed to generate revenues of $4,834,390 for wastewater operations. This represents a revenue increase of $913,843, or 23.31 percent.

On September 4, 2024, the Office of Public Counsel (OPC) filed a notice of intervention. OPC's intervention was acknowledged by Order No. PSC-2024-0407-PCO-SU, issued September 5, 2024.[3]

On February 10, 2025, the Commission suspended final rates proposed by the utility to allow staff sufficient time to process this case.[4] On April 3, 2025, KWRU filed a Petition for Variance or Waiver of a Specific Provision of Rule 25-30.140, F.A.C., in which it requested that no net salvage value be included in its depreciation calculations. On April 18, 2025, OPC filed its response to KWRU's waiver petition stating that KWRU did not meet the requirements to waive the application of net salvage value to its capital assets.

A virtual customer meeting was held on April 16, 2025. Two customers spoke at the meeting.

The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.091, and 367.121, F.S.

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[1]Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*
[2]Document No. 08049-2024, filed on July 29, 2024.
[3]Order No. PSC-2024-0407-PCO-SU, issued September 5, 2024, in Docket No. 20240108-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*
[4]Order No. PSC-2025-0046-PCO-SU, issued February 10, 2025, in Docket No. 20240108-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Discussion of Issues

Issue 1: Should KWRU's Petition for Variance or Waiver of a Specific Provision of Rule 25-30.140, F.A.C., be granted?

Recommendation: No. KWRU has not met the requirements of Section 120.542(5), F.S., or Rule 25-30.140, F.A.C., for a rule waiver. (Brownless)

Staff Analysis: Finding No. 6 of the Staff's Rate Case Audit filed on March 17, 2025,[5] states that KWRU did not apply the correct depreciation rates per Rule 25-30.140, F.A.C. for Accounts 391.7 Transportation Equipment and 395.7 Power Operated Equipment because it did not include the salvage value in calculating depreciation. Rule 25-30.140(1)(k), F.A.C., states as follows:

> (1) For the purpose of the rule, the following definitions apply:
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> . . .
>
> (k) Depreciation Accounting – The process of charging the book cost of depreciable property, *adjusted for net salvage*, to operations over the associated useful life."
> [Emphasis added.]

On April 3, 2025, KWRU filed a Petition for Variance or Waiver of a Specific Provision of Rule 25-30.140, F.A.C., to which OPC filed its Response on April 18, 2025, opposing the waiver request. Variances from the application of a rule can be justified if: (a) the application of the rule creates a substantial hardship or violations of principles of fairness; and (b) the waiver would serve the purpose of the underlying statute, i.e., the establishment of fair, just and reasonable rates pursuant to Section 367.081(2)(a)1, F.S.[6]

In support of not applying the net salvage value, KWRU argued that the Commission has consistently excluded net salvage value in its water and wastewater depreciation calculations. Further, KWRU states that Rule 25-30.140(6) and (7), F.A.C., characterize the definitions of Rule 25-30.140(1), F.A.C., as "guidelines" that "may not be applicable to every utility system."[7] KWRU stated that the salvage adjustment for Transportation Equipment of 10 percent effectively increases the expected life from six to 6.6 years, a time period not consistent with this equipment's expected useful life. Likewise, with regard to the Power Operated Equipment, the salvage adjustment of 5 percent effectively increases the expected life from twelve to 12.6 years, again a time period not consistent with this equipment's expected useful life. Thus, KWRU argued that no salvage adjustment more accurately reflects the expected lives of this equipment.

OPC countered that KWRU has not provided any evidence in support of its assertion that six year and twelve year useful lives are more accurate. Further, OPC argued that use of a net salvage percentage is to ensure that depreciation rates do not overcollect for the property by

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[5]DN 01830-2025.
[6]*See* Rule 28-104.002, F.A.C.
[7]KWRU Petition at 2.

"effectively" deducting any value of salvage when the property is retired.[8] Section (2)(b) of Rule 25-30.140, F.A.C., sets the net salvage value of Transportation and Equipment at 10 percent and 5 percent for Power Operated Equipment. These values can be changed if the utility can justify its proposed service lives. Justification consists of "historical data, technical information or utility planning for the affected accounts or sub-accounts." Rule 25-30.140(6)(a), F.A.C. OPC argues that KWRU did not provide a depreciation study supporting a recalibration of service lives for these accounts or any other evidence to show that it did not receive any net salvage for these accounts.[9]

Finally, OPC stated that KWRU's reliance on the fact that the Commission has not previously required net salvage be applied to these accounts is misplaced. OPC argued that no agency can willfully ignore its own rules whether there is an objection or not. Having filed its objection to KWRU's rule waiver request, OPC contended that the Commission certainly cannot do so here.

Upon a review of KWRU's petition and the materials provided by KWRU, staff agrees with OPC that KWRU has not proven that the application of the rule creates a substantial hardship or violates principles of fairness, or that its requested rule waiver would serve the purpose of the underlying statute. We acknowledge that the Commission has in the past not consistently applied the net salvage value for water and wastewater assets. However, that should not, and cannot, constitute an exception to the application of Rules 25-30.140(1)(k), F.A.C., or 25-30.140(3)(a), F.A.C.[10] Staff also notes that net salvage value was used in the Pluris Wedgefield, LLC and Sunshine Water Service Company orders in which this issue was fully litigated.[11]

CONCLUSION

For the reasons stated above, KWRU's Petition for Variance or Waiver of a Specific Provision of Rule 25-30.140, F.A.C., should not be granted.

[8]OPC Response at p. 2.
[9]OPC Response at p. 3.
[10] "Average service life depreciation rates based on guideline lives and salvages shall be used in any Commission proceeding in which depreciation rates are addressed, except for those utilities using depreciation rates in accordance with the requirements listed in subsections (6) and (7) of this rule." Subsection (6) requires the utility to prove by historic data, technical information or utility planning a different rate is justified. As stated above, KWRU has failed to do so. Subsection (6) states that common causes of the need for different depreciation rates are composition of the account, adverse environmental conditions, high growth or regulatory changes. KWRU has not alleged that any of these conditions exist in this case
[11]Order No. PSC-2024-0118-PAA-WS, issued April 23, 2024, in Docket No. 20230083-WS, *In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, LLC.*; Order No. PSC-2025-0196-FOF-WS, issued June 6, 2025, in Docket No. 20240068-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk and Seminole Counties, by Sunshine Water Services Company.*

Issue 2: Is the overall quality of service provided by the utility satisfactory, and, if not, what action should be taken by the Commission?

Recommendation: Yes. KWRU has been responsive to customer complaints; therefore, staff recommends that the quality of service is satisfactory. (Wooten)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the utility's attempt to address customer satisfaction. The rule further states that the most recent outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP), the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating condition of the wastewater system is addressed in Issue 3.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed complaints filed in the Commission's Consumer Activity Tracking System (CATS), received by the utility, and filed with the DEP, from July 1, 2019, through June 30, 2024. During this period, there were four complaints filed in CATS during the test year and four years prior for KWRU. Three of these complaints were related to billing issues and one complaint was regarding rates and access to tariff information. The utility addressed and resolved each complaint. Over this same period, the utility reported that it received a total of 54 complaints. 50 of the complaints were associated with sewage backups or similar issues of which 34 were resolved by the utility repairing its equipment and returning the system to normal operations, while 16 were found to be associated with problems with the customer's equipment. Out of the remaining 4 complaints, three were investigated by the utility with ultimately no issue being found by KWRU.[12] Last, one complaint was a billing issue regarding non-returned water. The utility addressed and resolved all complaints received during this time period.

Staff also requested all complaints received by the DEP for this same time period and was informed of two complaints. One complaint alleged that KWRU's effluent may be attributed to the elevated sucralose levels in the surrounding area, which suggested that some amount of wastewater may be present in the water. This complaint was investigated by the DEP which determined that there was no substantiated evidence that KWRU's effluent was the source of the elevated sucralose levels. The other complaint was regarding odor. The DEP investigated and determined that the odor detected did not appear to be sewer related and could not be traced back to the utility's wastewater facility. During the test year, KWRU had an average 1,841 customers, including 1,434 residential customers which accounted for 30.5 percent of system flows. Total complaints reported to the Commission, DEP, and the utility include approximately 1.1 percent of customers.

[12]Two of these complaints were "sewer problem" complaints in which the Utility examined all utility equipment and inspected the area but could find no issues. The other complaint reported loud noise from the treatment plant. However, the Operator found no abnormalities with the treatment plant.

A customer meeting was held on April 16, 2025. Two customers spoke, both provided comments opposing the proposed rate increase and one inquired into the possibility of selling the utility. Staff performed a supplemental review, through June 1, 2025, of complaints filed in CATS following the customer meeting and found no additional complaints. One customer comment was filed in the correspondence side of the docket opposing the rate increase.

CONCLUSION

KWRU has been responsive to customer complaints; therefore, staff recommends that the quality of service is satisfactory.

Issue 3: Are the infrastructure and operating conditions of the utility's water and wastewater systems in compliance with the Florida Department of Environmental Protection regulations?

Recommendation: Yes. KWRU's wastewater system is currently in compliance with the DEP. (Wooten)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials and compliance evaluation inspections for wastewater systems, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Wastewater System Operating Conditions

KWRU's wastewater system consists of a permitted 0.849 million gallons per day (MGD) per Annual Average Daily Flow (AADF) design capacity wastewater treatment plant (WWTP). The facility consists of three treatment trains with screening, aeration, anoxic stage, clarifiers, sand filtration, chlorine disinfection, and aerobic digesters. Effluent disposal is via four Class V underground injection wells or by public access reuse.

Staff reviewed the utility's compliance evaluation inspections conducted by the DEP to determine the utility's overall wastewater facility compliance. In its compliance inspection report, conducted on March 20, 2024, the DEP initially determined KWRU's wastewater treatment facility was out of compliance due to four unauthorized sanitary sewer overflow (SSO) discharges that occurred at the facility between December 2022 and October 2023. However, on September 5, 2024, the DEP determined that the facility was in compliance and that the SSOs had already been evaluated and addressed at the time they occurred. Two of the SSO discharges were related to unforeseen pipe damage, one was due to an unknown person breaking a relief valve, and one was related to an electrical failure at a lift station. The utility addressed these SSO discharges by making repairs and appropriately reported the SSO discharges to the DEP. The DEP reported that adequate notification from the utility was received for all issues and no subsequent compliance issues were reported by the DEP. Additionally, the utility has no outstanding citations, violations, or consent orders on file with the DEP or the Monroe County Health Department.

CONCLUSION

KWRU's wastewater system is currently in compliance with the DEP.

Issue 4: Should any adjustments be made to the test year plant-in service balances?

Recommendation: Yes. An adjustment should be made to increase the test year plant-in-service balance by $301,205. (York, Wooten)

Staff Analysis: In its MFRs, the utility reflected a 13-month average test year utility plant in service (UPIS) balance of $21,985,301. As addressed in Issue 9, staff is recommending approval of the Utility's adjustments to annualize depreciation expense based on the corresponding plant assets being recognized in rate base. Based on the annualization calculated in the MFRs, staff calculated the corresponding increase to test year plant-in-service balances. As such, staff recommends increasing the test year plant-in-service balance by $224,208 to reflect corresponding adjustments to annualization addressed in Issue 9.

Additionally, staff recommends further adjustments to UPIS as follows. Staff's audit report identified a reclassification from Account 354.4 to Account 380.4 made in June 2024 that was not reflected in the MFRs. KWRU did not dispute this adjustment. As such, staff recommends a 13-month average decrease of $207 for Account 354.4 and an equal increase for Account 380.4. This results in a net-zero adjustment to UPIS. As discussed further in Issue 18, a corresponding adjustment should be made to increase UPIS by $38,244 to reclassify certain costs reflected as miscellaneous revenues in the test year. As discussed further in Issue 21, a corresponding adjustment should be made to increase UPIS by $38,157 to capitalize certain costs reflected as O&M expenses in the test year. As such, staff recommends UPIS be increased by $301,205 ($224,804 + $38,244 + $38,157).

CONCLUSION

Based on the above, staff recommends test year UPIS be increased by $301,205.

Issue 5: Should any adjustments be made to the utility's pro forma plant additions?

Recommendation: No. Staff agrees that the $2,132,047 for the net increase to UPIS is reasonable; therefore, no adjustment is needed. However, staff recommends a net salvage adjustment be made to reduce the associated pro forma accumulated depreciation and depreciation expense by $1,385 and $2,770, respectively. (York, Wooten)

Staff Analysis: Section 367.081(2)(a)2., F.S., provides that the Commission, in fixing rates, shall consider facilities to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates, unless a longer period is approved by the Commission, to be used and useful (U&U) if such property is needed to serve current customers.

In its filing, the utility included pro forma plant additions of $2,179,139 for the KWRU Blower and Electrical Upgrades Project which is a combined project intended to replace the blowers and associated electrical panels as well as upgrade the Supervisory Control and Data Acquisition (SCADA) system. The breakdown of the total project costs is reflected in Table 5-1.

Table 5-1
Pro Forma Plant Additions

Project	Amount
Kaeser Blowers (Purchase, Shipping, and Taxes)	$276,733
SCADA System Upgrades	$277,000
Design, Permitting, and Structural Improvement	$447,906
Installation of Blower and Electrical Panel Upgrades	$1,177,500
Total Project Cost	$2,179,139

Source: Document No. 04037-2025 filed May 29, 2025

The current blowers were installed in 1983 at an elevation below the current flood level and have reached the end of their useful life. Currently, the treatment system used by KWRU requires control of oxygen levels, which is accomplished through the current blowers by controlling the air intake, but would normally be controlled by adjusting the motor speeds. In order to be compatible with the treatment system, the replacement blowers are required to utilize variable frequency drive controllers that allow more precise control of oxygen levels. The utility sought proposals from multiple manufacturers that could provide blowers that met the necessary design requirements, ultimately choosing blowers from Kaeser as they were the least expensive and KWRU believed them to provide the best value. To control and integrate the new blowers, KWRU installed new electrical panels and SCADA system upgrades. Additionally, the newly installed blowers and electrical panels would be raised to 9.2 feet to be above the current flood level.

The utility solicited four bids from general contractors to complete the KWRU Blower and Electrical Upgrades project and received two bid proposals. KWRU ultimately selected the lowest bid proposal. Staff reviewed invoices provided by the utility detailing project costs and believes the costs are appropriate. The project is currently scheduled to be completed by

December 2025.[13] Based on the aforementioned, staff believes the utility met its burden of proof for this project by demonstrating its need and providing the necessary cost justification. Therefore, staff does not recommend any adjustments to the utility's requested pro forma plant additions.

The pro forma adjustments reflect additions to the UPIS. These adjustments include $145,000 to Account 354.4 (Structures & Improvements), $1,757,139 to Account 380.4 (Treatment & Disposal Equipment) for a blower replacement and electrical upgrade, and $277,000 to Account 396 (Communication Equipment) for a SCADA system. Additionally, a retirement of $47,092 is applied to Account 380.4 to account for assets replaced by the new equipment. These changes result in a net increase of $2,132,047 to UPIS.

Accumulated Depreciation and Depreciation Expense

The utility also requested corresponding adjustments to increase accumulated depreciation and depreciation expense by $65,113 and $130,225, respectively. As discussed further in Issue 9, staff believes an adjustment is necessary to recognize salvage value associated with the pro forma additions to Account 396. Pursuant to Rule 25-30.140, F.A.C., staff has reduced the pro forma accumulated depreciation and depreciation expense by $1,385 and $2,770, respectively, associated with the additions to Account 396.

CONCLUSION

Staff agrees that the $2,132,047 for the net increase to UPIS is reasonable; therefore, no adjustment is needed. However, staff recommends a net salvage adjustment be made to reduce the associated pro forma accumulated depreciation and depreciation expense by $1,385 and $2,770, respectively.

[13]Document No. 04037-2025, filed on May 29, 2025, in Docket No. 20240108-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 6: What are the appropriate plant retirements to be made in this docket?

Recommendation: The appropriate total plant retirements is $47,092. (York, Wooten)

Staff Analysis: In its MFRs, KWRU reflected plant retirements in the amount of $47,092 associated with pro forma plant additions. The utility also included corresponding adjustments to reduce accumulated depreciation and depreciation expense by $47,092 and $2,618, respectively. This retirement represents the only necessary adjustment to reflect the removal of obsolete equipment directly tied to the utility's planned capital improvements. Staff does not have any adjustments. As such, staff recommends plant retirements of $47,092.

CONCLUSION

The appropriate total plant retirements is $47,092.

Issue 7: Do any wastewater systems have excessive infiltration and/or inflow (I&I) and, if so, what adjustments are necessary, if any?

Recommendation: No. There is no excessive I&I; therefore, staff recommends no adjustment. (Wooten, Byrne)

Staff Analysis: Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints, whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is typically 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. This is added to the expected water returned from the system, which is typically determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users, excluding irrigation and reuse flows. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated. In addition, adjustments to operating expenses, such as chemical and electrical costs, are considered necessary if excessive.

In its MFRs, the utility states that there is no excess I&I, and no adjustments should be made as a result. The utility identified an infiltration allowance of 8,993,341 gallons, with an additional 22,490,400 gallons allowed for inflow, for a total allowable I&I of 31,483,741 gallons per year. Based on staff's review of the record, these values appear reasonable.

For the returned water calculation, KWRU's calculated value of expected returns is 208,660,160 gallons per year. This is based on an assumption that the estimated returns sold to residential users and non-residential users should be 90 percent and 94 percent, respectively, instead of the typical 80 percent and 90 percent values. KWRU stated that there is very little lawn space in the residential and general service areas and that the newest residential properties built are high density. Furthermore, the utility stated that there is a low usage per equivalent residential connection (ERC) of 4,002 gals/month. Staff reviewed maps of the service territory and agrees with the description of KWRU. Therefore, staff recommends the proposed 90 and 94 percent return assumptions for residential and non-residential, respectively, are reasonable for KWRU.

Combining the allowable I&I and expected returns yields 240,143,901 gallons per year. Any amount treated in excess of this amount should be considered excessive I&I. Based on the utility's MFR Schedule F-2, 238,659,000 gallons of wastewater were treated during the test year. Staff verified these values by comparison to records submitted to DEP. As the total amount of water treated is less than the allowable I&I and expected returns, there is no excessive I&I and staff recommends no adjustments are necessary for power or chemicals.

CONCLUSION

There is no excessive I&I; therefore, staff recommends no adjustment.

Issue 8: What are the appropriate used and useful percentages for the wastewater treatment facilities and collection system?

Recommendation: KWRU's WWTP should be considered 77.6 percent used and useful and KWRU's wastewater collection system should be considered 100 percent used and useful. To reflect the appropriate U&U percentage, rate base should be reduced by $2,231,591. Corresponding adjustments should also be made to decrease net depreciation expense and property tax by $140,864 and $3,618, respectively. (Wooten, York)

Staff Analysis: As stated in Issue 3, the WWTP has a DEP permitted capacity of 0.849 MGD per AADF. This plant is operated to provide secondary treatment with basic disinfection. The collection system is made up of approximately: 20,525 linear feet of 8-inch polyvinyl chloride (PVC) pipe, 11,342 linear feet of 4-inch PVC pipe, 6,168 linear feet of 6-inch PVC pipe, 3,100 linear feet of 3-inch PVC pipe and 300 linear feet of 12-inch PVC pipe.

Used and Useful

Rule 25-30.432, F.A.C., addresses the method by which the U&U of a wastewater system is determined. In the previous rate case the WWTP was determined to be 71.5 percent U&U and the wastewater collection system was determined to be 100 percent U&U.[14]

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of a WWTP is based on customer demand compared with the permitted plant capacity, with customer demand measured on the same basis as permitted capacity, with considerations for growth, I&I, and other factors. In the utility's MFR Schedule F-6, the utility calculated a value of 90.5 percent U&U, but proposed that the WWTP be considered 100 percent U&U because the system is built out and no further flow increases are anticipated.

The permitted capacity of the plant is 849,000 gallons per day (gpd) AADF. MFR Schedule F-4 includes actual flows during the test year of 652,074 gpd. For growth, the utility uses values from two sources. The first source, totaling 6,933 gpd, is the five year customer growth based on a linear regression analysis that estimated additional 9.96 ERCs annually, with 139.23 gpd/ERC. The second source, totaling 109,560 gpd, is based on two potential customer projects anticipated in 2026 and 2027, identified as the Bartlum Yard Resort and Bartlum Boat Yard. The utility proposes no adjustment for excessive I&I. Based on the above, the utility calculated a value of 90.5 percent. [(652,074 gpd + (6,933 gpd + 109,560 gpd) – 0 gpd) / 849,000 gpd]

In staff's review of the various components included in the U&U calculation, staff confirmed the utility's values for permitted capacity and actual flows based upon documentation provided to the DEP, and as recommended in Issue 6, that there is no excessive I&I. Regarding growth, staff agrees with including the first source of 6,933 gpd based on the five year customer growth using a linear regression, which is consistent with Rule 25-30.431, F.A.C. However, staff disagrees with the inclusion of the additional 109,560 gpd from the two customer projects as the utility did not provide adequate documentation that these flows would occur during the next five year

[14]Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

period. Therefore staff recommends a U&U value of 77.6 percent of the WWTP. [(652,074 gpd + 6,933 gpd – 0 gpd) / 849,000 gpd]

Wastewater Collection

The service area has had very little growth in the past five years and the collection system has no change in capacity. Consistent with the Commission's prior order, the wastewater collection system should be considered 100 percent U&U.[15]

CONCLUSION

KWRU's WWTP should be considered 77.6 percent used and useful and KWRU's wastewater collection system should be considered 100 percent used and useful. To reflect the appropriate U&U percentage, staff recommends rate base be reduced by $2,231,591. Corresponding adjustments should also be made to decrease net depreciation expense and property tax by $140,864 and $3,618, respectively.[16]

[15]Order No. PSC-2016-0123-PAA-SU, issued on March 23, 2016, in Docket No. 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

[16]Staff's recommended adjustments include U&U adjustments made to CIAC, accumulated amortization of CIAC, and CIAC amortization expense, consistent with the utility's prior cases.

Issue 9: Should any adjustments be made to test year accumulated depreciation?

Recommendation: Yes. Test year accumulated depreciation should be increased by $423,905. All necessary adjustments to accumulated depreciation associated with pro forma additions should be made as set forth and discussed in Issue 5. (York)

Staff Analysis: In its MFRs, the utility reflected test year accumulated depreciation of $10,211,165 along with adjustments to increase accumulated depreciation to annualizing depreciation expense of plant added during the test year, as well as a corresponding adjustment to a plant reclassification.

Annualization

KWRU reflected an adjustment to increase accumulated depreciation by $10,059 to recognize the annualization of depreciation expense of plant added during the test year. Staff believes this is a reasonable adjustment. When considering pro forma additions of plant that occur after the end of the test year, accumulated depreciation is annualized. This is a convention of ratemaking, thus recognizing the full year of the asset in plant, accumulated depreciation, and depreciation expense. Staff believes adjustments to accumulated depreciation recognizing the annualization of plant added during the test year provide a more accurate representation of rate base as a component of ratemaking. Additionally, in order to ensure the annualization of accumulated depreciation does not result in a mismatch, staff has recommended including a UPIS annualization adjustment to reflect the corresponding assets in rate base, as discussed in Issue 4.

Staff recalculated the annualization adjustment for Account Nos. 391.7 and 395.7 to recognize salvage value as prescribed by Rule 25-30.140, F.A.C. Staff recommends the annualization adjustment be reduced by $765.

Audit Adjustments

Audit Finding No. 4 addresses a reclassification of plant. Audit staff determined corresponding accumulated depreciation adjustments to reduce Account 354.4 by $2,693 and increase Account 380.4 by $75 were necessary. KWRU did not dispute these adjustments. As such, staff recommends accumulated depreciation be reduced by $2,618 (-$2,693 + $75) to recognize the adjustments made in Audit Finding No. 4.

Audit Finding No. 6 addresses the recalculation of depreciation since the utility's last rate case. Audit staff determined that KWRU was not applying the correct depreciation rates as established by Rule 25-30.140 F.A.C. Further, audit staff found that the utility was not including the salvage value in calculating depreciation associated with Accounts 391.7 and 395.7, as prescribed by the Rule. As discussed in Issue 1, staff recommends that KWRU be required to include the net value in calculating depreciation associated with these accounts. As such, staff recommends accumulated depreciation be increased by $424,447 to recognize the adjustments made in Audit Finding No. 6.

Corresponding Adjustments

As discussed in Issue 18, a corresponding adjustment should be made to increase accumulated depreciation by $1,275 to reclassify certain costs reflected as miscellaneous revenues in the test year. A corresponding adjustment should be made to increase accumulated depreciation by

$2,186 to reflect capitalizing certain costs reflected as O&M expenses in the test year, as discussed further in Issue 21.

CONCLUSION

Based on the adjustments discussed above, test year accumulated depreciation should be increased by $423,905 (- $765 – $2,618 + $424,447 +$1,275 + $2,186). All necessary adjustments to accumulated depreciation associated with pro forma additions should be made as set forth and discussed in Issue 5.

Issue 10: Should any adjustments be made to the test year contributions-in-aid-of-construction (CIAC) balance?

Recommendation: Yes. An adjustment should be made to increase test year CIAC by $38,244. All necessary adjustments to CIAC associated with staff's recommended non-U&U adjustment should be made as set forth and discussed in Issue 8. (Bardin)

Staff Analysis: In its filing, KWRU reflected test year CIAC of $12,091,323. The audit staff found no issue with this amount. As addressed in Issue 8, staff is recommending a non-used and useful adjustment to rate base that reflects CIAC in the total adjustment to rate base. As discussed in Issue 18, a corresponding adjustment should be made to increase CIAC by $38,244 to reclassify certain costs reflected as miscellaneous revenues in the test year.

CONCLUSION

An adjustment should be made to increase test year CIAC by $38,244. All necessary adjustments to CIAC associated with staff's recommended non-U&U adjustment should be made as set forth and discussed in Issue 8.

Issue 11: Should any adjustments be made to test year accumulated amortization of CIAC?

Recommendation: Yes. An adjustment should be made to increase test year accumulated amortization of CIAC by $1,275. All necessary adjustments to accumulated amortization of CIAC associated with staff's recommended non-U&U adjustment should be made as set forth and discussed in Issue 8. (Bardin)

Staff Analysis: In its filing, KWRU reflected test year accumulated amortization of CIAC of $6,665,424. The audit staff found no issue with this amount. As addressed in Issue 8, staff is recommending a non-used and useful adjustment to rate base that includes the accumulated amortization of CIAC. A corresponding adjustment should be made to increase accumulated amortization of CIAC by $1,275 to reflect the adjustment to CIAC in Issue 10.

CONCLUSION

An adjustment should be made to increase test year accumulated amortization of CIAC by $1,275. All necessary adjustments to accumulated amortization of CIAC associated with staff's recommended non-U&U adjustment should be made as set forth and discussed in Issue 8.

Issue 12: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $1,442,290. As such, the working capital allowance should be increased by $2,896. (Sewards)

Staff Analysis: Rule 25-30.433(3), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. In its MFRs, the utility recorded a working capital allowance of $1,439,394.

Audit Finding No. 1 addressed adjustments to the cash balance, the unamortized debt discount and expense balance, and the accounts payable balance included in working capital.

Cash

Audit staff made an adjustment to remove a total of $449,549 in cash associated with interest-bearing accounts identified and removed in the last rate case. In its previous rate cases, the Commission has made adjustments to remove excessive amounts of cash included in working capital that was not used for day-to-day operation of KWRU.[17]

It has been Commission practice to either exclude interest bearing accounts from working capital, or to include them provided that the interest income is also included in the above-the-line revenues.[18] In response to Audit Finding No. 1, KWRU stated that the accounts identified by audit staff were not the same accounts as the previous rate case and should not be removed. Staff examined the documentation provided with the utility's response to the audit, as well as the excel version of the MFRs and recognizes the cash accounts are not the same as in the last case. Additionally, in response to staff's data request, KWRU explained it maintains a cash balance of two and a half to three times the average amount of monthly expenses, and any additional cash generated is used to pay down debt. Staff believes the utility's justification for maintaining its test year cash balance supports the level reflected in its filing. In response to staff's data request, the utility provided associated interest income of $17,010. Consistent with Commission practice, staff has made an adjustment to include the interest income in the above-the-line revenues, as reflected in Issue 18, and recommends the cash accounts remain in working capital.

Other Audit Adjustments

Audit staff also made an adjustment to reduce unamortized debt discount and expense by $233 and an adjustment to increase accounts payable by $41. Both adjustments were made to recognize amounts that were not included in the MFRs. KWRU did not dispute these adjustments. As such, staff recommends the adjustments to reduce unamortized debt discount and expense and to increase accounts payable be made, resulting in a net decrease of $274 (-$233 - $41).

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[17]See Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-WS, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*; Order No. PSC-2017-0091-FOF-SU, issued March 13, 2017, in Docket No. 20150071-WS, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

[18]See Order No. PSC-2024-0118-PAA-WS, issued April 23, 2024, in Docket No. 20230083-WS, *In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, LLC.*; Order No. PSC-2001-0326-FOF-SU, issued February 6, 2001, in Docket No. 19991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

Miscellaneous Expense

As discussed further in Issue 21, staff has recommended an adjustment to remove non-recurring expenses from operations and maintenance (O&M). As such, staff recommends a corresponding adjustment to increase working capital by $3,170 to recognize the unamortized balance of non-recurring expenses.

CONCLUSION

Based on the above, staff recommends the appropriate working capital allowance is $1,442,290. As such, working capital allowance should be increased by $2,896 (-$274 + $3,170).

Issue 13: What is the appropriate rate base for the June 30, 2024 test year?

Recommendation: The appropriate rate base is $7,874,046. (York)

Staff Analysis: This is a fallout issue. Based upon the utility's adjusted 13-month average test year balances and staff's recommended adjustments, the appropriate 13-month average rate base is $7,874,046. Schedule No 1-A reflects staff's recommended rate base calculations. Staff's proposed adjustments to rate base are shown on Schedule 1-B.

CONCLUSION

The appropriate rate base is $7,874,046.

Issue 14: What is the appropriate amount of customer deposits to include in the capital structure?

Recommendation: The appropriate amount of customer deposits is $332,635. (Sewards)

Staff Analysis: In its MFRs, the utility reflected $332,635 in customer deposits at a cost rate of 2.00 percent. Staff does not have any adjustments to customer deposits. As such, staff recommends the appropriate amount of customer deposits to include in the capital structure is $332,635.

CONCLUSION

The appropriate amount of customer deposits is $332,635.

Issue 15: What is the appropriate cost rate for long-term debt for the test year?

Recommendation: The appropriate cost rate for long-term debt is 5.90 percent. (Sewards)

Staff Analysis: In its MFRs, the utility requested a cost rate for long-term debt of 5.90 percent. KWRU included a pro forma adjustment to replace its existing loan instrument with a new loan. The MFRs denote the existing loan carried a cost rate of prime + 0.50 percent, or 8.00 percent, and the new loan carries a fixed cost rate of 5.90 percent.[19] Staff does not have any adjustments. As such, staff recommends the appropriate cost rate for long-term debt is 5.90 percent.

CONCLUSION

The appropriate cost rate for long-term debt is 5.90 percent.

[19]The current U.S. prime rate is 7.50 percent.

Issue 16: What is the appropriate return on equity (ROE) for the test year?

Recommendation: The appropriate ROE is 9.95 percent. (Sewards)

Staff Analysis: In its MFRs, the utility requested an ROE of 10.05 percent based on the current leverage formula in effect.[20] Staff reviewed KWRU's request and has found an error in the calculation. The leverage formula utilizes the equity ratio which is comprised of investor sources of capital.[21] However, the utility included customer deposits in its calculation of the equity ratio. Staff has recalculated the ROE using the correct sources of capital. As such, staff recommends the appropriate ROE is 9.95 percent based on the leverage formula currently in effect.

CONCLUSION

The appropriate ROE is 9.95 percent.

[20]Order No. PSC-2024-0165-PAA-WS, issued May 22, 2024, in Docket No. 20240006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(j), F.S.*
[21]Equity Ratio = Common equity / (Common Equity + Preferred Equity + Long-Term and Short Term Debt)

Issue 17: What is the appropriate weighted average cost of capital (WACC) including the proper components, amounts and cost rates associated with the capital structure?

Recommendation: Based on the proper components, amounts, and cost rates associated with the capital structure for the 13-month average test year ended June 30, 2024, as discussed in Issues 14-16, the appropriate weighted average cost of capital for KWRU for purposes of setting rates is 7.97%, as reflected in Schedule No. 2. (Sewards)

Staff Analysis: In its MFRs, the utility requested a capital structure based on a 13-month average as of June 30, 2024, consisting of common equity in the amount of $5,664,435 (57.05 percent) and long-term debt in the amount of $4,264,575 (42.95 percent) as a percentage of investor supplied capital. KWRU appropriately used the 13-month average to determine the capital structure for Class A utilities as required by Rule 25.30.433(5), F.A.C., with a pro forma addition to long-term debt to reflect the new long-term debt instrument. The utility's request in its filing is reflected in Table 17-1 below.

Table 17-1
KWRU Requested Weighted Average Cost of Capital

Capital Component	Amount	Percentage	Cost Rate	Weighted Cost
Long-Term Debt	$4,264,575	41.56%	5.90%	2.45%
Common Equity	5,664,435	55.20%	10.05%	5.55%
Customer Deposits	332,635	3.24%	2.00%	0.06%
Total	**$10,261,645**	**100.00%**		**8.06%**

Source: MFR Schedule D-1

The weighted average cost of capital is a fallout issue that combines the cost rates and amounts of the capital components into a final rate of return. Staff's recommended cost rate for long-term debt (5.90 percent), ROE (9.95 percent), and customer deposits (2.00 percent) were discussed in Issues 14-16. Consistent with recent Commission decisions, staff has reconciled the capital structure to the rate base using all sources of capital.[22] The appropriate weighted average cost of capital is presented in Schedule No. 2 and in Table 17-2 below.

[22]Order No. PSC-2025-0196-FOF-WS, issued June 6, 2025, in Docket No. 20240068-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Sunshine Water Services Company*; Order No. PSC-2025-0035-PAA-GU, issued January 30, 2025, in Docket No. 20240046-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*; Order No. PSC-2024-0046-PAA-WS, issued February 22, 2024, in Docket No. 20230081-WS, *In re: Application for increase in water and wastewater rates in Broward County by Royal Waterworks, Inc.*

Table 17-2
Staff Recommended Weighted Average Cost of Capital

Capital Component	Amount	Percentage	Cost Rate	Weighted Cost
Long-Term Debt	$3,249,319	41.27%	5.90%	2.43%
Common Equity	4,315,917	54.81%	9.95%	5.46%
Customer Deposits	308,811	3.92%	2.00%	0.08%
Total	**$7,874,047**	**100.00%**		**7.97%**

CONCLUSION

Based on the proper components, amounts, and cost rates associated with the capital structure for the 13-month average test year ended June 30, 2024, as discussed in Issues 14-16, the appropriate weighted average cost of capital for KWRU for purposes of setting rates is 7.97%, as reflected in Schedule No. 2.

Issue 18: Should any adjustments be made to the test year operating revenues for KWRU's wastewater system?

Recommendation: Yes. Test year operating revenues for KWRU's wastewater system should be decreased by $14,844. (Sibley)

Staff Analysis: In its revised MFRs, the utility reflected total test year operating revenues of $3,920,642. The wastewater revenues included $3,827,254 of service revenues and $93,388 of miscellaneous revenues.

In response to Audit Request No. 18, the utility made a couple of adjustments to the billing determinants to reflect the appropriate number of bills for the 1-1/2 inch general service meter size and a 3 inch private lift station owner. The general service 1-1/2 inch meter size reflected 84 bills; however, 24 bills were unaccounted for and not included in the MFRs. Furthermore, the utility erroneously misclassified the private lift station owner as general service customer, which represented 12 bills. Therefore, staff made corresponding adjustments to reflect the appropriate number of bills for the private lift station owner and the general service customers. Staff determined test year service revenues by applying the current rates to the adjusted billing determinants. These adjustments resulted in service revenues of $3,833,643, which is an increase of $6,389 ($3,833,643 - $3,827,254).

Furthermore, in response to Audit Request No. 19, a couple of adjustments were made by staff to miscellaneous revenues. As shown in the MFRs, the miscellaneous revenues included initial revenues of $38,244. However, the utility indicated that those revenues should have been classified as other miscellaneous revenues. Staff determined that the $38,244 were engineering and administrative costs related to developer agreements, which should have been classified as CIAC. Therefore, staff removed $38,244 from miscellaneous revenues. In addition, staff increased other revenues by $17,010 to reflect other income earned on interest bearing accounts. These adjustments result in total miscellaneous revenues of $72,155 ($93,388 - $38,244 + $17,010), which is a decrease of $21,233 ($72,155 - $93,388).

CONCLUSION

Based on the above, test year operating revenues should be decreased by $14,844 ($6,389 - $21,233).

Issue 19: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is $142,924. This expense should be amortized over four years for an annual expense of $35,731. Based on the utility's original filing, the annual amortization of rate case expense should be decreased by $27,135. (Byrne, Przygocki)

Staff Analysis: In its MFRs, KWRU's requested $251,465 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On May 9, 2025, the utility submitted its last revised estimate of the rate case expense, through completion of the PAA process, which totaled $155,253.

Table 19-1
KWRU Requested Rate Case Expense

Description	Actual	Additional Estimated	Revised Total
Dean, Mead, Egerton, Bloodworth, Capouano & Bozartg, P.A. - Martin Friedman	$11,166	$12,651	$23,816
Smith, Hawks, P.L.	22,755	6,033	28,788
Milian, Swain & Associates	76,248	13,840	90,088
M&R Consultants	2,992	1,520	4,512
The Weiler Engineering Corporation	1,005	0	1,005
Filing Fee	4,500	0	4,500
Customer Notices, Printing, and Shipping	1,216	1,328	2,544
Total	**$119,881**	**$35,371**	**$155,253**

Dean, Mead, Egerton, Bloodworth, Capouano & Bozartg, P.A.

The utility requested rate case expense totaling $49,200 along with $3,800 in additional expenses for Dean, Mead, Egerton, Bloodworth, Capouano & Bozartg, P.A. in its MFRs. The utility provided documentation detailing rate case expense through April 30, 2025. The actual fees totaled $11,166, with $716 of this amount as expenses associated with the legal fees. An estimated cost of $11,962 in remaining attorney fees was included, as well as the costs to complete the case, $688 in travel expenses to attend the Commission Conference, totaling to $23,816 in rate case expense for Mr. Friedman. Upon review of the invoices, staff found an adjustment increasing rate case expense by $360 was necessary due to a discrepancy in the amount provided by Mr. Friedman and the amount calculated by staff. Another adjustment reducing rate case expense by $205 was found to be necessary in order to remove hours billed associated with deficiency review, as it is Commission standard to remove these costs. Staff has calculated the amount allowed for Mr. Friedman to be $23,971.

Smith Hawks, PL

In addition to Dean, Mead, Egerton, Bloodworth, Capouano & Bozartg, P.A., the utility retained the law firm Smith Hawks, PL to assist in legal services. The utility requested $67,500 in total rate case expense for Smith Hawks, PL in its MFRs. The utility provided documentation detailing rate case expense through March 15, 2025. In this update, the utility stated the actual billed attorney fees totaled $22,755. Based on the support documentation provided, staff recalculated this amount to be $21,689 and therefore recommends an adjustment decreasing rate case expense by $1,066. The utility estimates remaining legal fees for Mr. Smith to be $6,000, with $33 in estimated costs remaining, bringing the total to $27,722.

In KWRU's last rate case, staff reviewed the hourly rates of the attorneys representing KWRU and found Mr. Smith's hourly rate to be too high. In that case, staff limited Mr. Smith's rate to match Mr. Friedman's rate.[23] In response to staff's third data request, the utility provided an explanation as to why Mr. Smith's rate was reasonable. The utility stated Mr. Smith's current hourly rate is $750, but most of the work was being performed by a paralegal, Brandi Green, at a rate of $225 an hour. The utility stated the rate used in the MFRs estimate represents a blending of the rates based on allocation of work. Staff reviewed the documentation regarding rate case expense and found Mr. Smith's hourly rate from the invoices, of $675 to be high when compared to the other attorneys. KWRU's other primary counsel Mr. Friedman, who was further discussed above, charges an hourly rate of $435. Mr. Friedman's law firm, unlike Smith Hawks PL, specializes in representing water and wastewater utilities in the State of Florida. The Smith Hawks PL law firm has much less experience before the Commission and it is not reasonable that its hourly charges should be higher. Given Mr. Friedman's years of experience as a utility regulatory attorney, we find that Mr. Friedman's hourly rate of $435 serves as a reliable benchmark for a reasonable hourly rate. Therefore, we adjusted Mr. Smith's hourly rate of $675 to $435 an hour. This results in a reduction of $7,102. Based on the adjustments discussed above, staff recommends the rate case expense for Smith Hawks, PL to be $20,620.

Milian, Swain & Associates, Inc.

The utility requested $92,860 in rate case expense for Milian, Swain, & Associates, Inc. in its MFRs, as well as $390 for various expenses. $24,360 of this requested amount was for Deborah Swain, $66,500 was for Cynthia Yapp, and $2,000 was for Carolina Bastidas. The utility provided documentation detailing rate case expense through April 30, 2025. In this update, the utility stated their actual rate case expense amount charged to be $76,248. Of this amount, $15,298 was for Deborah Swain, $56,383 was for Cynthia Yapp, and $250 was for Carolina Bastidas. The revised estimate included $9,280 remaining for Deborah Swain and $4,560 remaining for Cynthia Yapp to complete the case, totaling to a revised estimate of $90,088 for total rate case expense. Staff recalculated the actual fees using the bills provided and found the actual amount to be $71,930, and therefore recommends an adjustment decreasing rate case expense by $4,318. Also, the utility did not provide documentation for the $390 requested in the MFRs for expenses. Based on these adjustments, staff recommends $85,770 in rate case expense for Milian, Swain & Associates, Inc., a decrease of $7,090 from the amount requested in the MFRs.

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[23]Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

M&R Consultants

The utility requested $5,700 in rate case expense for M&R Consultants in its MFRs. In response to staff's third data request, the utility provided documentation detailing rate case expense through March 17, 2025. The amount for M&R Consultants remained unchanged from that point in the rate case. The actual fees totaled $2,992 with $1,520 remaining to complete the case, a total of $4,512. Staff believes this updated amount is reasonable and recommends no adjustments to this total. Therefore rate case expense for M&R Consultants should be reduced by $1,188 from the amount requested in the utility's MFRs.

The Weiler Engineering Corporation

In its MFRs, the utility requested $25,085 in rate case expense for the Weiler Engineering Corporation. In response to staff's second data request, the utility provided documentation detailing rate case expense through for the Weiler Engineering Corporation. The actual fees totaled $1,005. Staff believes this updated amount is reasonable and recommends no additional adjustments. Therefore, the rate case expense requested in the MFRs for the Weiler Engineering Corporation should be reduced by $24,080.

Miscellaneous Expenses

In its MFRs, the Utility included $2,430 for printing and shipping expenses associated with the rate case expense. On March 27, in response to staff's second data request the utility provided invoices for printing and shipping expenses totaling $1,216. Staff believes that this amount is reasonable and no additional adjustments should be made to the printing and shipping expenses. The Utility also included $1,328 in travel fees to attend the Commission Conference. Therefore, miscellaneous expenses should be increased by $114 from the amount requested in the utility's MFRs to include the travel expenses.

Filing Fee

The utility included $4,500 for the filing fee in its MFRs. This fee was paid by Dean, Mead, Egerton, Bloodworth, Capouano & Bozartg, P.A. on behalf of the company. No adjustment is needed.

CONCLUSION

Based upon the adjustments discussed above, KWRU's requested rate case expense of $251,465 should be decreased by $108,541 for a total of $142,924. A breakdown of staff's recommended rate case expense is as follows:

Table 19-2
Staff Recommended Rate Case Expense

Description	Utility Revised Total (Actual & Estimated)	Staff Adjustment	Recommended Total
Legal Fees	$52,605	($8,013)	$44,593
Accounting Consultant Fees	90,088	(4,318)	85,770
Engineering Consultant Fees	5,518	0	5,518
Filing Fee	4500	0	4,500
Printing, Shipping, and Travel	2,544	0	2,544
Total	**$155,255**	**($12,331)**	**$142,924**

Source: Staff's calculations

The total rate case expense of $142,924 should be amortized over four years, pursuant to Section 367.081(8), F.S., as the utility did not request a longer period of amortization. This represents an annual expense of $35,731. Based on the utility's MFR filing, the annual amortization of rate case expense of $62,866 for the instant docket should be decreased by $27,135.

Issue 20: Should any adjustments be made to the utility's proposed pro forma expenses?

Recommendation: Yes. Staff recommends pro forma expenses be decreased by $16,965. (Bardin, Wooten)

Staff Analysis: Staff has reviewed the utility's filings and recommends several adjustments to pro forma expenses. In its filing, KWRU requested a total of $177,128 of pro forma expenses for projected increases in the following expense categories: salaries and wages, employee pension and benefits, general liability insurance, workers' compensation insurance, sludge hauling, chemicals, and contractual services for engineering. Staff's recommended adjustments are discussed below.

Employee Pension and Benefits

The utility included a corresponding pro forma increase of $26,320 to employee pension and benefits expense for the requested increase in salaries and wages expense of $51,352. This increase was comprised of two parts: a benefit calculation amount of 23.36 percent, calculated as the total test year pensions and benefits expense divided by salaries and wage expense as presented in the MFRs ($322,598 / $1,381,238), and an additional one percent of traditional pension times the total salaries equaling $14,326.

While reviewing the calculation of the pension and benefits expense, staff noted that the Board of Directors receive stipends and health insurance reimbursements totaling $148,100 ($84,000 + $64,100). KWRU's general ledger specifically identifies the Board members' payments as stipends. Stipends are not considered to be traditional wages by definition, are not based on the services or hours worked, and are not subject to Social Security or Medicare taxes as salaries are. Likewise, the health insurance reimbursements paid to the Board members are not for the same health insurance that the employees and officers receive through the company, and it is unknown if the insurance is comparable in benefits or costs. As such, staff believes these expenses should be excluded from the pension and benefits expense calculation for employees and officers receiving salaries and wages.

Staff has recalculated the percentage used to determine the requested pensions and benefits expense. When staff's recommended adjustments are removed from the computation, the resulting percentage is 19.93 ($258,498 / $1,297,238). Using 19.93 percent for the pension and benefits calculation and the pro forma amount of salaries and wages expense of $51,352 results in $10,234 rather than $11,994, which is a difference of $1,760.

For the second part of the pro forma employee pension and benefits expense of $14,326, staff requested that KWRU clarify the need for the additional one percent of traditional pension times the total salaries and the utility responded in a data request that this one percent should be removed.

Thus, staff recommends a total appropriate amount of $10,234 for pro forma employee pension and benefits expense, with a reduction of $16,086 ($1,760 + $14,326).

Workers' Compensation

The utility's MFR Schedule B-3 reflected a corresponding workers' compensation expense increase of 4.4 percent of the requested pro forma salaries and wage expense. Staff was unable to determine how the utility arrived at this percentage for the worker's compensation calculation. Workers' compensation expense should be based on the actual salaries and wages expense for both the employees and officers. As stated above, staff recommends the cost of stipends paid to the board members be excluded. Staff calculated the percentage of test year workers' compensation expense based on the total salaries and wage expense, less the Board of Directors stipend amounts, ($33,730 divided by $959,159 + $422,079 - $84,000). This resulted in a ratio of 2.60 percent which staff believes best represents the pro forma workers' compensation expense. As such, staff recommends a pro forma workers' compensation expense of $1,335 ($51,352 x 2.6%), which results in a reduction of $879.

Pro Forma O&M Projects

In its filing, the utility requested two O&M pro forma projects, which are both required by the DEP: The Engineering Permit Renewal and Collection System Action Plan (CSAP) Preparation projects. Section 367.081, F.S., provides that the Commission shall approve rates for service which allow a utility to recover the full amount of environmental compliance costs.

Engineering Permit Renewal

For the WWTP to remain in operation, the DEP requires a permit renewal application every five years. Based on the WWTP's current permit expiration date of February 22, 2027, and Rule 62-620.335(1), F.A.C., the engineering permit renewal application must be submitted 180 days before the expiration date; therefore, the application must be completed no later than August 26, 2026. The utility requested a pro forma O&M expense of $40,000 to complete this project, to be amortized over a five year period. This estimated expense is based on recent permit renewals from similarly sized facilities in Monroe County.[24] As the project is required by a governmental entity, staff recommends approval of the project and associated costs. The proposed amortization period is consistent with the frequency of the permit requirements, and therefore is appropriate. Therefore, no adjustments are needed for this pro forma expense.

CSAP Preparation

Pursuant to Rule 62-600,705(2), F.A.C., which became effective on June 28, 2023, the DEP now requires wastewater facilities to develop a pipe assessment, repair, and replacement action plan for the facility's collection system. A summary of this plan must be submitted to the DEP with the next facility permit application for any new permit, permit renewal, or substantial permit revision. The intended goal of the CSAP is to prevent SSO events and leakages that may endanger public health and the environment. The project must be completed in advance of the utility's August 26, 2026 permit renewal date and is currently scheduled to be completed by December 29, 2025. The utility requested a pro forma O&M expense of $335,000 for the CSAP Preparation project, to be amortized over a five year period. The cost is based on an agreement with Weiler Engineering Corporation, the utility's primary engineering advisor, and is estimated to be completed by October 2025. As the project is required by a governmental entity, staff recommends approval of the project and associated costs. The proposed amortization period is

[24]Document No. 04037-2025, filed on May 29, 2025, in Docket No. 20240108-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

consistent with the frequency of the permit requirements, and therefore is appropriate. Therefore, no adjustments are needed for this pro forma expense.

CONCLUSION

Based on the adjustments above, staff recommends that pro forma expenses be decreased by $16,965 ($16,086 + $879).

Issue 21: Should any further adjustments be made to the utility's test year O&M expenses?

Recommendation: Yes. Based on the audit adjustments recommended by staff, the following adjustments should be made as set forth in staff's analysis below. In addition to the audit findings, staff recommends several adjustments to the O&M expenses. Staff recommends that O&M expenses be reduced by $216,969. (Bardin, Wooten)

Staff Analysis: In its response to the staff audit report, KWRU did not contest the audit adjustments as set forth in the table below.

Table 21-1
Description of Audit Adjustments

Account 701 –Salaries and Wages - Employees	Discrepancy between the General Ledger and the payroll support documentation.	$ 2,700
Account 703 –Salaries and Wages – Officers	Discrepancy between the General Ledger and the payroll support documentation.	(2,700)
Account 704 –Employee Pensions and Benefits	Employee examination fee charged incorrectly to another account.	100
Account 711 – Sludge Removal Expense	Improperly billed charge that was disputed and credited outside of the test year.	(4,549)
Account 720 – Materials and Supplies	To remove out-of-period expenses and reclassify one expense to another account.	(800)
Account 731 – Contractual Services-Engineering	To remove an out-of-period expense.	(5,203)
Account 735 – Contractual Services – Testing	To remove out-of-period expenses.	(840)
Account 750 – Transportation Expense	Reduction for vehicle repair work that was reimbursed by insurance and due to expenses reclassified.	(1,674)
Account 757 – General Liability Insurance	To correct amount for the actual expense incurred rather than the total monthly accrual amount used by the utility.	1,219
Account 760 – Advertising Expense	To remove out-of-period expenses.	(70)
Account 775 – Miscellaneous Expenses	To remove social membership dues and to include a cell phone expense that was omitted by the utility.	(1,350)
	Total Audit O&M Adjustments	**($13,167)**

Additionally, staff recommends several adjustments to the O&M expenses after reviewing the utility's MFRs and responses to data requests.

Salaries and Wages

In its filing, the utility included $959,159 for salaries and wages expense of employees and $422,079 for salaries and wages expense for officers and directors. Staff reviewed comparable salary compensation data filed in support of employee salaries and has no adjustments. The salaries and wages expense for officers and directors account included a stipend for each of the three board members. The Board of Directors receive compensation which consists of two Directors receiving monthly stipend payments at an annual rate of $24,000 and a Chairman receiving monthly stipend payments at an annual rate of $36,000.

Staff reviewed the information submitted by KWRU for comparable compensation paid to board members for both the Keys Energy Services (KES) and the Florida Keys Aqueduct Authority (FKAA).

KES has five elected board members who provide direction for a company with approximately 28,000 customers and an operating revenue of approximately $119 million. KES' board is comprised of a chairman and four directors, and the board meets twice a month. The chairman receives compensation in the amount of $28,000 annually, and the other four board members each receive $24,520 annually. All members of KES' board also receive health insurance coverage.

FKAA has five board members who are appointed by Florida's Governor, and who provide direction for a company with more than 55,000 customers and an operating revenue of over $90 million. Each board member receives $584 per meeting, with twelve scheduled meetings per year, and the possibility of four to six additional meetings. These board members also receive health insurance coverage.

Staff believes the level of current director fees for KWRU is excessive, as it is a much smaller utility by comparison, with less than two thousand customers and less than four million dollars in revenue. Based on the data comparisons provided by the utility, staff recommends limiting the annual stipends of the two Directors to $7,008, which is equivalent to what the FKAA board members receive for twelve meetings per year. The Chairman's annual stipend currently reflects one and one-half the amount of the Directors' annual stipend. Thus, staff recommends an annual stipend of $10,512 ($7,008 x 1.5) for the Chairman.

In total, staff recommends that the appropriate amount of director fees should be $24,528 ($7,008 + $7,008 + $10,512). As such, the salaries and wages for officers and directors should be decreased by $59,472.

Employee Pension and Benefits

Each of the three board members also receive monthly full health insurance premium reimbursements at a cost of $21,367 each per year for a total $64,100 during this test year. As they are not employees nor are the directors' health insurance premiums included in the utility's biweekly payment of health insurance payments, these health insurance reimbursements are additional monetary compensation for the board members. Staff notes that health insurance reimbursements are not a standard investor-owned utility practice for board members' compensation and are inappropriate as the directors are already being compensated through stipends.

As such, staff recommends that the $64,100 currently recorded as monthly board of directors health reimbursements in the employee pension and benefits account should be excluded from test year O&M expenses.

Therefore, staff recommends that an adjustment be made to reduce the employee pension and benefits expense by of $64,100.

Miscellaneous Expenses

During a review of the utility's miscellaneous expenses, staff noted months with higher computer related expenses. In response to staff's data requests, KWRU confirmed that $3,298 in expenses related to setting up an employee's telework station were non-recurring, as were $665 in expenses related to a security camera set up. In total, staff recommends amortizing $3,963 ($3,298 + $655) over a 5-year period, pursuant to Rule 25-30.433(8), F.A.C. This results in a decrease of $3,170. Additionally the utility stated that one of the phones that was included in the test year expenses is no longer being utilized by the utility and the phone amount of $659 should be removed from the miscellaneous expenses.

Therefore, staff recommends that an adjustment be made to reduce the miscellaneous expenses in the amount of $3,829 ($3,170 + $659).

Capitalized O&M Expenses

As addressed in Issue 18, staff is recommending the reclassification of these revenues as CIAC, along with the capitalization of the associated costs. A corresponding adjustment should be made to reduce O&M expenses by $38,244 to reflect the removal of the costs being capitalized.

Staff reviewed the O&M expenses which were determined to be non-recurring. In total O&M expense should be reduced by $38,244 to reflect the capitalization of these costs.

CONCLUSION

Based on the adjustments above, staff recommends that O&M expenses be reduced by a total of $216,969 ($13,166 + $59,472 + $64,100 + $3,829 + $38,157 + $38,244).

Issue 22: Should any adjustments be made to test year taxes other than income?

Recommendation: Yes. Test year taxes other than income (TOTI) should be decreased by $47,337. (Byrne, Przygocki)

Staff Analysis: Based on staff's Audit Finding No. 3, the following adjustments should be made. Test year regulatory assessment fees should be increased by $329. To reflect the decrease in the 2024 property tax assessments from $10,914 to $8,751, property taxes should be reduced by $2,162 ($8,751 - $10,914). There should also be a decrease of $100 made to Other Licenses and Permits to reflect the DEP licensing examination fee of $100, which was included in the original amount in the MFRs and should have been charged to Account 704. In total, test year TOTI should be decreased by $1,933 ($329 - $2,162 - 100) to reflect staff's audit. The utility did not dispute these adjustments. Therefore staff recommends a decrease of $1,933 to TOTI.

All additional adjustments are fallouts. Based on staff's adjustments to test year revenues and to remove the utility's requested increase, regulatory assessment fees should be reduced by $41,787. To reflect staff's recommended non-used and useful adjustment, property taxes should be decreased by $3,618. In total, TOTI should be reduced by $47,337 ($1,933 + $41,787 + 3,618) before calculating staff's recommended increase.

CONCLUSION

Test year TOTI should be decreased by $47,337.

Issue 23: Should any adjustments be made to test year depreciation expense?

Recommendation: Yes. In addition to the adjustments recommended in Issues 5 and 8, depreciation expense should be increased by $66,755. (York)

Staff Analysis: This is a fallout issue. In addition to the depreciation expense adjustments recommended in Issues 5 and 8, corresponding adjustments should be made to reflect staff's recommendation in Issues 9 and 18. To reflect staff's recommended adjustment for salvage value in Issue 9, depreciation expense should be reduced by $765. To reflect Audit Finding No. 6, depreciation expense should be increased by $64,058. Staff notes a calculation error was found in the Audit Report after its issuance and it does not reflect the correct adjustment. To reflect staff's recommended adjustment to reclassify certain costs reflected as miscellaneous revenues in the test year in Issue 18, a corresponding adjustment should be made to increase depreciation expense by $1,275. To reflect the capitalization of O&M expenses recommended in Issue 21, depreciation expense should be increased by $2,186.

CONCLUSION

Based on the above, in addition to the adjustments recommended in Issues 5, 6, and 8, staff recommends depreciation expense be increased by $66,755 (-$765 + $64,058 + $1,275 + $2,186).

Issue 24: Should any adjustments be made to test year amortization of CIAC expense?

Recommendation: Yes. Amortization of CIAC should be increased by $1,275. All necessary adjustments to CIAC amortization expense associated with staff's recommended non-U&U adjustment should be made as set forth and discussed in Issue 9. (Bardin)

Staff Analysis: In its filing, KWRU reflected test year CIAC amortization expense of $398,765. The audit staff found no issue with this amount. As addressed in Issue 9, staff is recommending a non-used and useful adjustment to rate base that includes a corresponding adjustment to CIAC amortization expense. A corresponding adjustment should be made to increase amortization of CIAC amortization expense by $1,275 to reflect the CIAC adjustment recommended in Issue 10.

CONCLUSION

Staff recommends a corresponding adjustment to increase amortization of CIAC by $1,275.

Issue 25: What is the appropriate revenue requirement for the June 30, 2024 test year?

Recommendation: Staff recommends the following revenue requirement be approved. (Bardin)

Test Year Revenue	$ Increase	Revenue Requirement	% Increase
$3,905,798	$358,534	$4,264,332	9.18%

Staff Analysis: In its filing, KWRU requested a revenue requirement to generate annual revenue of $4,834,390. This requested revenue requirement represents a revenue increase of $913,843, or approximately 23.31 percent.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating expenses, the appropriate revenue requirement is $4,264,332. Staff's recommended revenue requirement of $4,264,332 is $358,534 greater than staff's adjusted test year revenue of $3,905,798 or an increase of 9.18 percent. Staff's recommended revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 7.97 percent return on its investment in rate base.

CONCLUSION

The appropriate revenue requirement should be $4,264,332 for the June 30, 2024 test year.

Issue 26: What are the appropriate rate structures and rates for the wastewater systems?

Recommendation: The appropriate rate structure and rates for wastewater service are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Sibley)

Staff Analysis: KWRU provides wastewater service to approximately 1,439 residential customers, 183 general service customers, and 220 private lift station owners. Currently, the wastewater rate structure for residential customers consists of a monthly uniform base facility charge (BFC) for all meter sizes and gallonage charge with a 10,000 gallonage cap. The general service rate structure consists of BFCs by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement a gallonage cap, where appropriate, that considers approximately the amount of water that may return to the wastewater system.

Currently, the utility's BFC allocation is 38 percent of the wastewater revenue. Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. The utility's current wastewater gallonage cap is set at 10,000 gallons per month. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. Based on staff's review of the billing data, staff recommends that the gallonage cap for residential customers remain at 10,000 gallons. Staff also recommends that the general service gallonage charge continue to be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice.

In addition, wastewater rates are calculated on customers' water demand; if those customers' water demand is expected to decline due to repression, then the billing determinants used to calculate wastewater rates should be adjusted accordingly. In determining the number of wastewater gallons subject to repression, staff uses the gallons between the non-discretionary threshold and the wastewater gallonage cap and applies the percentage reduction in water gallons. In this case, there is no water system to calculate repression. Therefore, a repression adjustment for wastewater is not applicable.

CONCLUSION

The appropriate rate structure and rates for wastewater service are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 27: What are the appropriate reuse rates?

Recommendation: The appropriate rate for KWRU's reuse service is $2.05 per 1,000 gallons. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Sibley)

Staff Analysis: In its MFRs, KWRU proposed a reuse rate of $2.33. The utility provides reuse service to three general service customers in Monroe County. The current reuse rate for these customers is $1.88 per 1,000 gallons. The utility's primary method of disposal of the treated wastewater is through reuse. Reuse rates are market based rather than cost based. This provides an incentive to encourage customers to use the reuse. In addition, there are cost savings associated with providing reuse to customers rather than purchasing land for disposal of the treated wastewater.

A review of reuse rates charged throughout Monroe County listed in the Florida Department of Environmental Protection's 2025 Reuse Inventory Report indicates that KWRU's proposed reuse rate is lower than other providers in the county. During its review of the utility's reuse rates, staff determined that the utility applied an across-the-board increase, consistent with the overall revenue increase, to the existing reuse rate for its proposed reuse rate.[25] Over the past few years, the Commission has approved across-the-board increases to reuse rates. Staff believes that the utility's methodology of applying an across-the-board increase is appropriate and reasonable in this case because the resulting reuse rate is below the market in KWRU's respective county. Therefore, staff recommends an across-the-board increase of 9.81 percent to the existing reuse rate commensurate with the overall recommended increase in wastewater.

CONCLUSION

The appropriate rate for KWRU's reuse service is $2.05 per 1,000 gallons. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

[25]See Order No. PSC-15-0233-PAA-WS, issued June 3, 2015, in Docket No. 140060-WS, *In re: Application for increase in water and wastewater in Seminole County by Sanlando Utilities Corporation.*

Issue 28: Should miscellaneous service charges be revised to conform to Rule 25-30.460, F.A.C.?

Recommendation: Yes. The initial connection and normal reconnections charges should be removed. The premises visit charge should be revised to $89.50 for normal hours and $91.36 for after hours. The definition for the premises visit charge should be updated to comply with Rule 25-30.460, F.A.C. The utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of notice. (Chambliss)

Staff Analysis: The utility did not request to revise its existing miscellaneous service charges. Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility's miscellaneous service charges include an initial connection charge of $77.40 for normal hours and $79.01 for after hours. In addition, the miscellaneous service charges include a normal reconnection charge of $89.50 for normal hours and $91.36 for after hours. Rule 25-30.460, F.A.C., does not allow for initial connection and normal reconnection charges and these should be removed from the tariff. The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. Since the premises visit entails a broader range of tasks, staff recommends the premises visit charge should reflect the amount of the normal reconnection charge, which is $89.50 for normal business hours and $91.36 for after hours calls.

CONCLUSION

Based on the above, the initial connection and normal reconnections charges should be removed. The premises visit charge should be revised to $89.50 for normal hours and $91.36 for after hours. The definition for the premises visit charge should be updated to comply with Rule 25-30.460, F.A.C. The utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of notice.

Issue 29: What is the appropriate Lift Station cleaning charge?

Recommendation: The appropriate lift station cleaning charge for KWRU is $2,354.25. The approved charge should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475. F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. KWRU should provide proof of the date notice was given within 10 days of the date of the notice. (Chambliss)

Staff Analysis: KWRU's lift station cleaning charge was established in 2017.[26] Subsequently, the charge has been indexed yearly to the existing charge of $1,807.92. The charge was designed to allow the utility to recover the costs associated with cleaning the Monroe County Detention Center lift station. KWRU did not request changes to its lift station cleaning charge; however, staff believes it is appropriate to update the charge with current actual costs to ensure the burden of this cost is on the cost causer. At staff's request, the utility provided cost justification for an updated charge of $2,354.25 as shown in Table 29-1. Based on the utility's cost justification, staff believes it is an appropriate reflection of current costs.

Table 29-1
Lift Station Cleaning Charge

Activity	Cost	Activity
Labor ($30/hr x 1.5 hrs)	$45.00	Labor ($30/hr x 1.5 hrs)
Disposal Cost ($28.88 per 100lbs)	$28.36	Disposal Cost ($28.88 per 100lbs)
Supplies	$4.04	Supplies
Total Per Day	$77.40	Total Per Day
Annual Charge ($77.40 x 365)	$28,251.00	Annual Charge ($77.40 x 365)
Monthly Charge ($28,251/12)	$2,354.25	Monthly Charge ($28,251/12)

Source: Utility's cost justification

CONCLUSION

The appropriate lift station cleaning charge for KWRU is $2,354.25. The approved charge should be effective services rendered or connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475. F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. KWRU should provide proof of the date notice was given within 10 days of the date of the notice.

[26]Order No. PSC-2017-0091-FOF-SU, issued March 13, 2017, in 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 30: What are the appropriate initial customer deposits?

Recommendation: The appropriate initial customer deposit should be $201 for the 5/8 inch x 3/4 inch meter size for residential service customers. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Chambliss)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.[27] Currently, the utility has an initial customer deposit of $161 for the 5/8 inch x 3/4 inch meter size. However, this amount does not cover two months' average bills based on staff's recommended rates. Based on the utility's average monthly residential consumption, the appropriate initial customer deposit should be $201 to reflect an average residential customer bill for two months. The monthly average residential bill is $100.55.

CONCLUSION

Staff recommends that the appropriate initial customer deposit should be $201 for the 5/8 inch x 3/4 inch meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

[27]Order No. PSC-2015-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

Issue 31: Should an Allowance for Funds Used During Construction (AFUDC) rate be established? If yes, what is the appropriate AFUDC rate and when will it be effective?

Recommendation: Yes. An annual AFUDC rate of 7.97 percent, effective July 1, 2024, should be approved with a discounted monthly rate of 0.006410. The approved rate should be applicable for eligible construction projects beginning July 1, 2024. (Sewards)

Staff Analysis: On February 4, 2025, KWRU filed a request to establish an AFUDC rate of 8.06 percent based on its requested WACC in the instant docket. AFUDC is an accounting entry designed to permit a utility to recover the cost associated with financing eligible construction activities. AFUDC is not a tariffed rate or charge.

In accordance with Rule 25-30.116(5), F.A.C., the utility filed Schedules: A, a schedule showing the capital structure, cost rates and WACC that are the basis for the AFUDC rate requested; B, a schedule showing capital structure; and C, a schedule showing the calculation of the monthly AFUDC rate using the methodology set out in Rule 25-30.116(4), F.AC. In its calculation, KWRU used its requested capital structure comprised of common equity, long-term debt, and customer deposits.

Staff has reviewed the calculations submitted by KWRU. The utility calculated a WACC and resulting AFUDC rate of 8.06 percent. As discussed in Issue 17, staff has recommended a WACC of 7.97 percent. Additionally, the utility calculated its proposed AFUDC rate using the 13-month average balance of each component. Pursuant to Rule 25-30.116(3), F.A.C., staff recalculated the AFUDC rate using the 12-month average balances and an end of period cost rate for the long-term debt. As such, staff recommends that an AFUDC rate of 7.97 percent be approved and a monthly discounted rate of 0.006410 be applied to the qualified construction projects of KWRU.

Rule 25-30.116(6), F.A.C., states that "…The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission." KWRU used a test year ended June 30, 2024. Accordingly, staff recommends that the AFUDC rate be effective for qualified construction projects beginning July 1, 2024.

CONCLUSION

Based on the above, staff recommends an annual AFUDC rate of 7.97 percent, effective July 1, 2024, be approved with a discounted monthly rate of 0.006410. The approved rate should be applicable for eligible construction projects beginning July 1, 2024.

Issue 32: What is the appropriate amount by which rates should be reduced after the established effective date to reflect the removal of the amortized rate case expense?

Recommendation: KWRU's wastewater rates should be reduced as shown on Schedule No. 4. This is to remove rate case expense, grossed up for regulatory assessment fees, which is being amortized over a four-year period and will result in a reduction of $37,415. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period. Pursuant to Section 367.0816, F.S. KWRU should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index and/or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Byrne, Przygocki)

Staff Analysis: Section 367.081(8), F.S., requires that rates be reduced immediately following the expiration of the determined amortization period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of $37,415 of revenue associated with the amortization of rate case expense, the associated return on deferred rate case expense included in working capital, and the gross up for regulatory assessment fees. Using KWRU's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. KWRU should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense.

Issue 33: Should the utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Recommendation: Yes, the utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with any Commission ordered adjustments. KWRU should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Byrne)

Staff Analysis: The utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with any Commission ordered adjustments. KWRU should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 34: Should this docket be closed?

Recommendation: No. If no person who substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has notified staff that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Brownless)

Staff Analysis: If no person who substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has notified staff that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

K W Resort Utilities Corp
Schedule of Wastewater Rate Base
Test Year Ended June 30, 2024

Schedule No. 1-A
Docket No. 20240108-SU

	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1	Plant in Service	$21,985,301	$2,132,047	$24,117,348	$301,205	$24,418,553
2	Land and Land Rights	$375,000	$0	$375,000	$0	$375,000
3	Non-used and Useful Components	0	0	0	(2,231,591)	(2,231,591)
4	Accumulated Depreciation	(10,211,165)	(33,033)	(10,244,198)	(423,140)	(10,667,338)
5	CIAC	(12,091,323)	0	(12,091,323)	(38,244)	(12,129,567)
6	Amortization of CIAC	6,665,424	0	6,665,424	1,275	6,666,699
7	CWIP	94,385	(94,385)	0	0	0
8	Working Capital Allowance	0	1,439,394	1,439,394	2,896	1,442,290
9	**Rate Base**	$6,817,622	$3,444,023	$10,261,645	($2,387,599)	$7,874,046

K W Resort Utilities Corp
Adjustments to Rate Base
Test Year Ended June 30, 2024

Schedule No. 1-B
Docket No. 20240108-SU

	Explanation	Wastewater
	Plant In Service	
1	To reflect corresponding adjustment to annualize plant.	$224,804
2	To reflect reclassification of miscellaneous revenues.	38,244
3	To recognize capitalization of O&M expenses.	38,157
	Total	$301,205
	Non-used and Useful	
	To reflect net non-used and useful adjustment.	($2,231,591)
	Accumulated Depreciation	
1	To reflect Audit Finding No. 4.	$2,618
2	To reflect Audit Finding No. 6.	(424,447)
3	To recognize salvage value in annualization adjustment.	765
4	To recognize salvage value in pro forma additions.	1,385
5	To recognize capitalization of O&M expenses.	(2,186)
6	To reflect reclassification of miscellaneous revenues.	(1,275)
	Total	($423,140)
	CIAC	
	To reflect reclassification of miscellaneous revenues.	($38,244)
	Accumulated Amortization of CIAC	
	To reflect reclassification of miscellaneous revenues.	$1,275
	Working Capital	
1	To reflect Audit Finding No. 1.	($274)
2	To reflect corresponding adjustment for amortized O&M expenses.	3,170
	Total	$2,896

K W Resort Utilities Corp
Capital Structure-Simple Average
Test Year Ended June 30, 2024

Schedule No. 2
Docket No. 20240108-SU

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$2,994,387	$505,613	$3,500,000	$764,575	$4,264,575	41.56%	5.90%	2.45%
2	Short-term Debt	0	0	$0	0	$0	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	$0	0	$0	0.00%	0.00%	0.00%
4	Common Equity	4,648,885	0	4,648,885	1,015,550	5,664,435	55.20%	10.05%	5.55%
5	Customer Deposits	332,635	0	332,635	0	332,635	3.24%	2.00%	0.06%
6	Deferred Income Taxes	0	0	$0	0	$0	0.00%	0.00%	0.00%
7	**Total Capital**	$7,975,907	$505,613	$8,481,520	$1,780,125	$10,261,645	100.00%		8.06%
Per Staff									
8	Long-term Debt	$2,994,387	$505,613	$3,500,000	($250,681)	$3,249,319	41.27%	5.90%	2.43%
9	Short-term Debt	0	0	$0	$0	0	0.00%	0.00%	0.00%
10	Preferred Stock	$0	0	$0	$0	0	0.00%	0.00%	0.00%
11	Common Equity	4,648,885	0	4,648,885	(332,968)	4,315,917	54.81%	9.95%	5.46%
12	Customer Deposits	332,635	0	332,635	(23,824)	308,811	3.92%	2.00%	0.08%
13	Deferred Income Taxes	$0	0	$0	$0	0	0.00%	0.00%	0.00%
14	**Total Capital**	$7,975,907	$505,613	$8,481,520	($607,473)	$7,874,047	100.00%		7.97%

	LOW	HIGH
RETURN ON EQUITY	8.95%	10.95%
OVERALL RATE OF RETURN	7.42%	8.52%

K W Resort Utilities Corp
Statement of Wastewater Operations
Test Year Ended June 30, 2024

Schedule No. 3-A
Docket No. 20240108-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$3,851,481	$982,908	$4,834,389	($928,591)	$3,905,798	$358,534	$4,264,332
							9.18%	
	Operating Expenses							
2	Operation & Maintenance	$2,832,631	$253,623	$3,086,254	($261,069)	$2,825,185		$2,825,185
3	Depreciation	424,360	142,619	566,979	(78,155)	488,824		488,824
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	288,955	65,114	354,069	(47,337)	306,732	16,134	322,866
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	3,545,946	461,356	4,007,302	(386,561)	3,620,741	16,134	3,636,875
8	**Operating Income**	$305,535	$521,552	$827,087	($542,030)	$285,057	$342,400	$627,457
9	**Rate Base**	$6,817,622		$10,261,645		$7,874,046		$7,874,046
10	**Rate of Return**	4.48%		8.06%		3.62%		7.97%

K W Resort Utilities Corp
Adjustment to Operating Income
Test Year Ended June 30, 2024

Schedule No. 3-B
Docket No. 20240108-SU

	Explanation	**Wastewater**
	Operating Revenues	
1	To remove requested final revenue increase.	($913,747)
2	To reflect the appropriate amount of operating revenues.	(14,844)
	Total	($928,591)
	Operation and Maintenance Expense	
1	To reflect Audit Finding No. 2.	($13,167)
2	To reflect the appropriate amount of salaries & wages - officers.	(59,472)
3	To reflect the appropriate amount of pensions & benefits.	(80,186)
4	To reflect the appropriate amount of insurance - workman's comp.	(879)
5	To reflect the appropriate amount of miscellaneous expense.	(3,829)
6	To reflect the appropriate amount of rate case expense.	(27,267)
7	To recognize capitalization of O&M expenses.	(38,157)
8	To reflect reclassification of miscellaneous revenues.	(38,244)
	Total	($261,201)
	Depreciation Expense - Net	
1	To reflect Audit Finding No. 6.	$64,058
2	To recognize salvage value in annualization adjustment.	(765)
3	To recognize salvage value in pro forma additions.	(2,770)
4	To reflect reclassification of miscellaneous revenues to amort exp.	(1,275)
5	To reflect reclassification of miscellaneous revenues to dep Exp.	1,275
6	To recognize capitalization of O&M expenses.	2,186
7	To reflect net non-used and useful adjustment.	(140,864)
	Total	($78,155)
	Taxes Other Than Income	
1	To remove RAFs on revenue adjustments above.	($41,787)
2	To reflect Audit Finding No. 3.	(1,933)
3	To reflect non-used and useful adjustment to property tax	(3,618)
	Total	($47,337)

K W Resort Utilities Corp Monthly Wastewater Rates Test Year Ended June 30, 2024				Schedule No. 4 Docket No. 20240108-SU
	UTILITY CURRENT RATE	**UTILITY PROPOSED RATES**	**STAFF RECOMMENDED RATES**	**4 YEAR RATE REDUCTION**
Residential Service				
Base Facility Charge - All Meter Sizes	$53.24	$65.95	$70.93	$0.65
Charge Per 1,000 gallons				
10,000 gallon cap	$8.82	$10.93	$8.16	$0.07
General Service				
Base Facility Charge by Meter Size				
5/8" x 3/4"	$53.24	$65.95	$70.93	$0.65
3/4"	$79.86	$98.93	$106.40	$0.98
1"	$133.10	$164.88	$177.33	$1.63
1-1/2"	$266.20	$329.75	$354.65	$3.25
2"	$425.92	$527.60	$567.44	$5.20
3"	$851.84	$1,055.20	$1,134.88	$10.40
4"	$1,331.30	$1,648.75	$1,773.25	$16.25
6"	$2,662.00	$3,297.50	$3,546.50	$32.50
8" Turbo	$4,791.60	$5,935.50	$6,383.70	$58.50
Charge per 1,000 gallons	$10.58	$13.11	$9.80	$0.09
Harbor Shores				
Base Facility Charge	$3,673.56	$4,550.81	$4,894.17	$44.82
Gallonage Charge per 1,000 gallons				
690,000 gallon cap	$8.82	$10.93	$8.16	$0.07
Private Lift Station Owners				
Base Facility Charge by Meter Size				
5/8" x 3/4"	$42.60	$52.77	$56.74	$0.52
3/4"	$63.90	$79.16	$85.12	$0.78
1"	$106.50	$131.93	$141.86	$1.30
1-1/2"	$213.00	$263.86	$283.72	$2.60
2"	$340.80	$422.18	$453.95	$4.16
3"	$681.60	$844.37	$907.90	$8.32
4"	$1,065.00	$1,319.32	$1,418.60	$13.00
6"	$2,130.00	$2,638.64	$2,837.20	$26.00
8"	$3,408.00	$4,221.83	$4,539.52	$41.60
Gallonage Charge per 1,000 gallons	$10.58	$13.11	$9.80	$0.09
Reuse Service				
Gallonage Charge per 1,000 gallons	$1.88	$2.33	$2.05	$0.02
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
2,000 Gallons	$70.88	$87.81	$87.25	
6,000 Gallons	$106.16	$131.53	$119.89	
10,000 Gallons	$141.44	$175.25	$152.53	